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PASS US EXIMBANK

E.O. 12065: N/A
TAGS: BENC, EFIN, EXIM, KS
SUBJECT: US EXIMBANK COMMITMENT FEES ON NUCLEAR 7 & 8

REF: STATE 65245 -128-127

SUMMARY: ON APRIL 11, 1979 THE ECONOMIC PLANNING BOARD (EPB) MAILED A LETTER TO US EXIMBANK SENIOR VICE PRESIDENT AND DIRECTOR OF CREDITS AND FINANCIAL GUARANTEES, EDWARD O'CONNOR, PROTESTING THE HIGH COST OF COMMITMENT FEES. IT ANALYZES THE EFFECTS OF US EXIMBANK'S NEW POLICY ESTABLISHING COMMITMENT FEE ACCRUAL 60 DAYS AFTER BOARD AUTHORIZATION OR CREDIT AGREEMENT SIGNING, AND PROPOSES THAT 180 DAYS AFTER EXIMBANK BOARD AUTHORIZATION OR THE DATE OF THE LOAN AGREEMENT, WHICHEVER IS EARLIER, WOULD BE THE MORE APPROPRIATE POLICY. (COST OF NEW BANK POLICY COULD BE AS MUCH AS DOLLARS TWO MILLION TO KECO IN PAYING SUCH FEES WERE U.S. BIDDERS SELECTED FOR NUCLEAR 7 & 8.) ACTION REQUESTED IS THAT THE BOARD CONSIDER EPB'S ARGUMENTS AND ITS CONCERN THAT KOREAN FIRMS MY TURN TO OTHER FINANCING, AS WELL AS THE FACT THAT AMONG OUR COMPETITORS IN THE POWER FIELD, JAPAN DOES NOT CHARGE COMMITMENT FEES, AND THE OTHER COUNTRIES DO NOT IMPOSE
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THEM UNTIL THE DATE OF THE LOAN AGREEMENT OR BEYOND.

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THUS THE U.S. IS FIFTH AFTER JAPAN, FRANCE, GERMANY AND THE U.K. IN TERMS OF EFFECTIVE COST OF EXPORT CREDITS TO BORROWERS. END SUMMARY.

1. LETTER SIGNED BY TCHAH HWA JUNE, DIRECTOR GENERAL FOR ECONOMIC COOPERATION, NOTES THAT WHILE US EXIMBANK COMMITMENT FEES WILL BEGIN TO ACCRUE 60 DAYS AFTER BOARD AUTHORIZATION, IT HAS TYPICALLY TAKEN 9 MONTHS AFTER BOARD AUTHORIZATION TO COMPLETE THE LEGAL PROCEDURES WHERE THE ROKG HAS BEEN THE BORROWER. IT OBSERVES THAT DURING THAT 9-MONTH PERIOD, TIME HAS BEEN TAKEN UP FOR EXIM'S OWN NEGOTIATIONS OF LOAN DRAFTS WITH PARTICIPATING COMMERCIAL BANKS, PRINTING AND MAILING, ETC.

2. TCHAH ARGUES THAT IN THE EFFORT TO MINIMIZE SUCH FEES, EPB SOMETIMES HAS INSUFFICIENT TIME FOR REVIEW OF PRIVATE LOAN PROJECTS AND THAT THE EXTRA BURDEN THEY REPRESENT MIGHT CAUSE PRIVATE KOREAN FIRMS TO GO TO OTHER NATIONS' SOURCES OF FUNDING. DRAWING ON EXIM'S REPORT FOR FY 78, PAGE 23, LETTER NOTES THAT THE BANK'S EFFECTIVE COST OF EXPORT CREDIT IS UNDERSTATED BY FAILURE TO INCLUDE THE ADDITIONAL 0.15 PERCENT COST OF 12 MONTHS OF PRE-OPERATIONAL COMMITMENT FEES. (BY IMPLICATION, ADDING THAT TO THE 8.8 PERCENT (TOTAL 8.95) SHOWN WOULD PLACE THE U.S. FIFTH AFTER JAPAN, FRANCE, GERMANY AND THE U.K. AND WITH ONLY THE BANK'S CANADIAN AND ITALIAN COUNTERPARTS HAVING HIGHER EFFECTIVE COSTS OF BORROWING.) LETTER CLOSES WITH POLITELY STATED ROKG DISINCLINATION TO INVOLVE KOREAN BORROWERS, INCLUDING KECO, IN PAYMENT OF SUCH HIGH COMMITMENT FEES, AND REQUESTS BANK TO DEVELOP REASONABLE ALTERNATIVE.

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3. ACTION REQUESTED: THAT THE BANK SERIOUSLY CONSIDER EPB'S COMPLAINT IN THE LIGHT OF ITS FOREIGN COMPETITOR'S PRACTICES ALSO TAKING INTO ACCOUNT THEIR ABUSE OF THE "GENTLEMEN'S AGREEMENT" WHEREVER POSSIBLE TO UNDERCUT US EXIMBANK AS THE BRITISH DID IN CONNECTION WITH THE TURBINE GENERATORS ON THE FOUR PREVIOUS NUCLEAR PLANTS AND AS THE GERMANS AND FRENCH HAVE TRIED TO DO ON NUCLEAR 7 & 8. GLEYSTEEN

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